

VZCZCXRO6322
RR RUEHAG RUEHAST RUEHDA RUEHDF RUEHFL RUEHIK RUEHKW RUEHLA RUEHLN
RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK RUEHYG
DE RUEHBW #1700 3540620
ZNR UUUUU ZZH
R 200620Z DEC 07
FM AMEMBASSY BELGRADE
TO RUEHC/SECSTATE WASHDC 1934
INFO RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDOG/USDOC WASHDC 0031
RUEHZL/EUROPEAN POLITICAL COLLECTIVE

UNCLAS BELGRADE 001700

SIPDIS

SENSITIVE
SIPDIS

USDOC FOR 4232/ITA/MAC/EUR/OEERIS/SSAVICH

E.O. 12958: N/A
TAGS: [ECON](#) [ENRG](#) [SR](#)
SUBJECT: SERBIA PACKAGES ENERGY DEAL FOR RUSSIA

REFTEL: Belgrade 1433

SUMMARY

11. (U) In the wake of a December 11 press conference to propose a bilateral energy agreement between Russia and Serbia, Embassy interlocutors confirm that support in the Serbian government to sell state oil company NIS to Gazprom has gained momentum. Embassy contacts point to government approval before the end of the year, which will set the framework Gazprom's purchase of NIS, investment in gas storage and a routing of the proposed South Stream gas pipeline across Serbia.
End Summary.

Energy Minister Popovic Promotes a Deal

12. (U) Energy Minister Popovic (DSS) held a press conference December 11 with the Russian Ambassador and announced a plan for the Serbian Government to move ahead with a bilateral agreement with Russia on energy that would package together a Serbian transit route for the South Stream gas pipeline, gas storage at Banatski Dvor and the sale of state-owned oil company NIS. Gazprom's Alexei Miller proposed this package during his October 9 visit to Serbia, and at that time the Serbian government denied it had any interest in bundling these energy assets (REFTEL). Officials said then that the NIS privatization tender plan would not be affected. The timing of the resurrection of this proposal in the wake of the December 10 troika report and in a press conference with the Russian Ambassador, rather than a Gazprom official, highlights the political undercurrent to this proposed deal.

13. (U) The Serbian government has been trying to secure Russian commitment to a South Stream gas pipeline route that transits Serbia since signing a vague MOU about the project in 2006. In recent weeks press reports in Serbia rekindled speculation that Gazprom would route the pipeline through Romania or Greece instead. Serbian Government officials have told post repeatedly that Gazprom has been unwilling to agree to anything beyond the noncommittal 2006 MOU with regard to the route of the gas pipeline. Transit fees from South Stream would provide substantial revenue to Serbia and would significantly increase Serbia's currently infrastructure-limited access to gas.

Political Support for Gazprom Solution Builds

14. (SBU) Foreign Minister Jeremic told the Ambassador following his November 22 trip to Russia that NIS would be sold to Gazprom. Jasna Matic, State Secretary in Dinkic's (G-17) Economy Ministry told Econoff on December 17 that Dinkic is not pleased with the agreement, but that several key player's in President Tadic's DS

party are supporting the package. As a result, she expects that Popovic's proposed agreement with Russia will be pushed through government before the end of this year. Post has not been able to obtain a copy of the proposed bilateral agreement. Matic and a NIS official both said the agreement will preempt an open tender for NIS. This despite the fact that the Serbian government's privatization advisor for NIS, Merrill Lynch, told post in early December that NIS attracted interest from Hungarian firm MOL, and Austrian firm OMV, which was studying a bid for NIS with Hellenic Petroleum.

Comment

15. (SBU) After denying that the Serbian government was interested in Gazprom's package deal, Popovic's proposed agreement with Moscow appears to give Gazprom exactly what it wants. If the agreement is as far reaching as the press and our contacts have indicated, the deal will give Gazprom nearly full control of Serbia's oil and gas sectors. While this deal clearly has political motivations, especially given the interest of several other firms in NIS, it does not necessarily indicate a turn toward Russian investment outside the energy sector. The recent privatization of mining firm Bor saw an Austrian firm prevail over a Russian bidder. End Comment.

MUNTER